

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

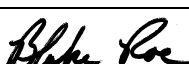
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Dearborn Heights, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Dearborn Heights, Michigan

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City of Dearborn Heights, Michigan

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Independent Auditor's Report

To the City Council
City of Dearborn Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the pension system funding progress schedule, and budgetary comparison schedules (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Dearborn Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dearborn Heights, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2006 on our consideration of the City of Dearborn Heights, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 5, 2006

City of Dearborn Heights, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Dearborn Heights, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- Property taxes are the City's single, largest source of revenues. The City's gross tax base (taxable value) for the fiscal year ended June 30, 2006 was approximately \$1,460,000,000, which represents an increase of \$51,000,000 over the prior year tax base. This represents an increase of approximately 3.6 percent.
- State-shared revenue, the second largest revenue source of the Corporate Fund, was reduced by the State of Michigan by approximately \$64,000 this year. This represents an approximate 1 percent reduction from the prior year.
- The mayor and department heads worked closely together to reduce expenditures for each department to help alleviate the current financial issues the City faces.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 13,002,150	\$ 11,548,080	\$ 8,011,495	\$ 8,946,735	\$ 21,013,645	\$ 20,494,815
Noncurrent assets	63,265,690	59,915,722	95,183,564	94,590,573	158,449,254	154,506,295
Total assets	76,267,840	71,463,802	103,195,059	103,537,308	179,462,899	175,001,110
Liabilities						
Current liabilities	4,774,431	3,793,652	4,580,068	5,416,020	9,354,499	9,209,672
Long-term liabilities	18,552,239	20,089,437	33,228,075	36,001,452	51,780,314	56,090,889
Total liabilities	23,326,670	23,883,089	37,808,143	41,417,472	61,134,813	65,300,561
Net Assets						
Invested in capital assets -						
Net of related debt	50,967,690	47,335,722	53,220,825	49,625,723	104,188,515	96,961,445
Restricted	6,094,024	5,550,659	5,726,815	6,923,189	11,820,839	12,473,848
Unrestricted (deficit)	(4,120,544)	(5,305,668)	6,439,276	5,570,924	2,318,732	265,256
Total net assets	\$ 52,941,170	\$ 47,580,713	\$ 65,386,916	\$ 62,119,836	\$ 118,328,086	\$ 109,700,549

The City's combined net assets increased approximately 8 percent from a year ago - increasing from \$109.7 million to \$118.3 million.

Unrestricted net assets of the governmental activities - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$1,185,000. This increase is related primarily to activity in joint venture investments and fulfillment of various restrictions on net assets reported in prior years.

The increase in total net assets of the business-type activities of approximately \$3 million relates in part to returns on investments held by the business-type activities and to an increase in amounts contributed from the governmental activities and other governmental units for the improvement of water and sewer lines.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year, and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 7,713,789	\$ 5,941,852	\$ 12,778,311	\$ 12,092,861	\$ 20,492,100	\$ 18,034,713
Operating grants and contributions	4,258,741	4,968,437	-	-	4,258,741	4,968,437
Capital grants and contributions	6,091,216	3,339,885	1,870,053	1,035,503	7,961,269	4,375,388
General revenue:						
Property taxes	19,207,864	19,798,378	4,170,867	5,527,862	23,378,731	25,326,240
State-shared revenue	5,943,516	6,007,329	-	-	5,943,516	6,007,329
Unrestricted investment earnings	258,960	188,890	499,462	226,768	758,422	415,658
Franchise fees	590,569	603,787	-	-	590,569	603,787
Gain on sale of capital assets	270,327	-	-	-	270,327	-
Rental income	161,792	213,812	-	-	161,792	213,812
Total revenue	44,496,774	41,062,370	19,318,693	18,882,994	63,815,467	59,945,364
Program Expenses						
General government	7,427,493	6,952,250	-	-	7,427,493	6,952,250
Public safety	20,170,970	18,886,060	-	-	20,170,970	18,886,060
Public works	8,252,518	8,600,970	-	-	8,252,518	8,600,970
Community and economic development	559,217	280,992	-	-	559,217	280,992
Recreation and culture	2,299,492	2,054,223	-	-	2,299,492	2,054,223
Interest on long-term debt	426,627	463,138	-	-	426,627	463,138
Water and sewer	-	-	16,051,613	14,731,329	16,051,613	14,731,329
Total program expenses	39,136,317	37,237,633	16,051,613	14,731,329	55,187,930	51,968,962
Change in Net Assets	\$ 5,360,457	\$ 3,824,737	\$ 3,267,080	\$ 4,151,665	\$ 8,627,537	\$ 7,976,402

Governmental Activities

Reviewing the above chart, it can be noted that overall revenues increased approximately \$3,435,000 while expenditures increased approximately \$1,900,000. The increase in revenues was caused in part by a significant increase in court fines and fees collected by the 20th District Court, an increase in revenue from the Community Development Block Grant Fund, and an increase in roadwork performed on behalf of the City by the Michigan Department of Transportation.

The increase in expenditures is due in part to an increase in workers' compensation claims, an increase in compensated absences expenses, and an increase in overtime paid to police and fire employees.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City maintains transmission lines that allow customers to receive water from the City of Detroit Water System and deliver it to our residents. Sewage treatment is provided through Wayne County's Rouge Valley and Downriver Sewage Disposal Systems.

Per review of the above chart, it can be noted that total revenues remained relatively consistent with the prior fiscal year while expenditures increased by approximately \$1.3 million. The increase in expenditures is related primarily to increases in sewer disposal charges, sewer lining costs, repairs and maintenance costs, and insurance costs.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The City of Dearborn Heights' Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2006 include the Corporate Fund, Major Streets Fund, and Local Streets Fund.

Corporate Fund Budgetary Highlights

The Corporate Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City. The budget is essentially a "maintenance" budget, which means it usually increases modestly from year to year. The budget is monitored closely and amended when needed.

During the current year, the budget was amended to account for increases in permit revenue, court costs, fines and violations, interest earnings, and other income. In addition, amendments were made to increase expenditures within the general government, police department, fire department, and highways, streets, and bridges within the public works department.

Capital Asset and Debt Administration

At the end of fiscal year 2006, the City (excluding component units) had approximately \$153 million (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines. The debt related to the acquisition and construction of these assets at June 30, 2006 was approximately \$48.5 million.

Economic Factors and Next Year's Budgets and Rates

The general operating millage cannot be increased next year since the City is at its maximum millage rate per the Headlee amendment. State-shared revenues have been budgeted by the State at an amount that is approximately the same as the 2006 rate. Some expenditures are assumed to increase at a rate above the rate of inflation, but the City has been able to negotiate with most employee unions, resulting in only a slight increase in salaries. However, by limiting expenditures, including capital outlay, revising how certain services are delivered, and eliminating additional personnel through attrition, the City has been able to balance its budget for fiscal year 2007.

Considering the City's decreasing debt load, programmed system improvements, and controlled water loss, the City will probably consider a nominal increase in water and sewer rates, effective December 1, 2006.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City of Dearborn Heights, Michigan's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's finance office at 6045 Fenton, Dearborn Heights, Michigan 48127, or via the City's website at dbarrow@ci.dearborn-heights.mi.us.

City of Dearborn Heights, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 7,585,612	\$ 3,951,665	\$ 11,537,277	\$ 3,651,658
Receivables - Net:				
Taxes - Net of allowance for doubtful accounts of \$319,189	1,399,836	-	1,399,836	-
Customers	-	3,988,876	3,988,876	-
Other	492,966	-	492,966	-
Internal balances	240,998	(240,998)	-	-
Due from other governmental units	3,276,712	-	3,276,712	10,654
Due from component unit	6,026	-	6,026	-
Due from primary government	-	-	-	11,067
Inventories, prepaids, and other assets	-	311,952	311,952	25,682
Restricted assets (Note 8)	-	5,726,815	5,726,815	-
Capital assets not being depreciated (Note 5)	5,602,019	597,335	6,199,354	2,767,640
Capital assets being depreciated (Note 5)	57,663,671	88,859,414	146,523,085	22,156,680
Total assets	76,267,840	103,195,059	179,462,899	28,623,381
Liabilities				
Accounts payable	1,783,449	980,205	2,763,654	144,120
Accrued and other liabilities	673,896	261,865	935,761	275,382
Due to component unit	11,067	-	11,067	-
Due to primary government	-	-	-	6,026
Deposits	1,445	70,614	72,059	-
Deferred revenue (Note 4)	8,450	-	8,450	-
Workers' compensation liability (Note 9)	690,000	-	690,000	-
General insurance liability (Note 9):				
Due within one year	286,000	-	286,000	-
Due in more than one year	548,912	-	548,912	-
Compensated absences:				
Due within one year	1,648,124	51,907	1,700,031	-
Due in more than one year	5,055,736	207,628	5,263,364	-
Long-term debt (Note 7):				
Due within one year	362,000	3,215,477	3,577,477	1,050,000
Due in more than one year	11,936,000	33,020,447	44,956,447	23,405,000
Joint venture long-term liabilities (Note 1)	321,591	-	321,591	-
Total liabilities	23,326,670	37,808,143	61,134,813	24,880,528
Net Assets				
Invested in capital assets - Net of related debt	50,967,690	53,220,825	104,188,515	469,320
Restricted:				
Streets and highways	2,912,401	-	2,912,401	-
Debt service, pension, and other	906,866	5,726,815	6,633,681	-
Library expenses	2,036,426	-	2,036,426	-
Cable improvements	184,000	-	184,000	-
Drug enforcement	54,331	-	54,331	-
Unrestricted	(4,120,544)	6,439,276	2,318,732	3,273,533
Total net assets	\$ 52,941,170	\$ 65,386,916	\$ 118,328,086	\$ 3,742,853

City of Dearborn Heights, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,427,493	\$ 662,373	\$ 379,870	\$ 268,955
Public safety	20,170,970	4,605,117	176,515	637,391
Public works	8,252,518	1,692,197	3,295,235	4,888,375
Community and economic development	559,217	-	294,810	-
Recreation and culture	2,299,492	754,102	112,311	296,495
Interest on long-term debt	426,627	-	-	-
Total governmental activities	39,136,317	7,713,789	4,258,741	6,091,216
Business-type activities - Water and Sewer	16,051,613	12,778,311	-	1,870,053
Total primary government	<u>\$ 55,187,930</u>	<u>\$ 20,492,100</u>	<u>\$ 4,258,741</u>	<u>\$ 7,961,269</u>
Component units:				
Tax Increment Finance Authority	\$ 4,171,098	\$ -	\$ 271,241	\$ -
Economic Development Corporation	-	-	-	-
Brownfield Redevelopment Authority	138,097	-	-	-
Total component units	<u>\$ 4,309,195</u>	<u>\$ -</u>	<u>\$ 271,241</u>	<u>\$ -</u>
General revenues:				
General property taxes				
Water and sewer millage property taxes				
State-shared revenues				
Unrestricted investment earnings				
Rental income				
Franchise fees				
Gain on sale of capital assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental				
Activities	Business-type Activities	Total	Component Units	
\$ (6,116,295)	\$ -	\$ (6,116,295)	\$ -	
(14,751,947)	-	(14,751,947)	-	
1,623,289	-	1,623,289	-	
(264,407)	-	(264,407)	-	
(1,136,584)	-	(1,136,584)	-	
(426,627)	-	(426,627)	-	
(21,072,571)	-	(21,072,571)	-	
-	(1,403,249)	(1,403,249)	-	
(21,072,571)	(1,403,249)	(22,475,820)	-	
-	-	-	(3,899,857)	
-	-	-	-	
-	-	-	(138,097)	
-	-	-	(4,037,954)	
19,207,864	-	19,207,864	3,029,383	
-	4,170,867	4,170,867	-	
5,943,516	-	5,943,516	-	
258,960	499,462	758,422	171,040	
161,792	-	161,792	-	
590,569	-	590,569	-	
270,327	-	270,327	-	
26,433,028	4,670,329	31,103,357	3,200,423	
5,360,457	3,267,080	8,627,537	(837,531)	
47,580,713	62,119,836	109,700,549	4,580,384	
\$ 52,941,170	\$ 65,386,916	\$ 118,328,086	\$ 3,742,853	

City of Dearborn Heights, Michigan

Governmental Funds Balance Sheet June 30, 2006

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 1,771,273	\$ 584,118	\$ 2,476,302	\$ 2,753,919	\$ 7,585,612
Receivables:					
Taxes - Net of allowance for doubtful accounts of \$319,189	1,399,836	-	-	-	1,399,836
Other	492,966	-	-	-	492,966
Due from other governmental units	2,676,984	383,854	156,379	59,495	3,276,712
Due from other funds (Note 6)	811,237	-	-	375,860	1,187,097
Due from component unit	6,026	-	-	-	6,026
Total assets	<u>\$ 7,158,322</u>	<u>\$ 967,972</u>	<u>\$ 2,632,681</u>	<u>\$ 3,189,274</u>	<u>\$ 13,948,249</u>
Liabilities					
Accounts payable	\$ 1,058,425	\$ 354,889	\$ -	\$ 370,135	\$ 1,783,449
Accrued and other liabilities	563,778	-	-	3,386	567,164
Amounts due to retirees	384,190	-	-	-	384,190
Due to other funds (Note 6)	506,726	299,597	33,766	106,010	946,099
Due to component unit	11,067	-	-	-	11,067
Deposits	-	-	-	1,445	1,445
Deferred revenue (Note 4)	229,372	-	-	8,450	237,822
Total liabilities	2,753,558	654,486	33,766	489,426	3,931,236
Fund Balances					
Reserved (Note 12)	1,090,866	-	-	286,168	1,377,034
Unreserved, reported in (Note 12):					
Corporate Fund	3,313,898	-	-	-	3,313,898
Special Revenue Funds	-	313,486	2,598,915	2,413,680	5,326,081
Total fund balances	<u>4,404,764</u>	<u>313,486</u>	<u>2,598,915</u>	<u>2,699,848</u>	<u>10,017,013</u>
Total liabilities and fund balances	<u>\$ 7,158,322</u>	<u>\$ 967,972</u>	<u>\$ 2,632,681</u>	<u>\$ 3,189,274</u>	<u>\$ 13,948,249</u>

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2006

Fund Balances - Total Governmental Funds	\$ 10,017,013
-------------------------------------------------	----------------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	63,265,690
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	229,372
Loss on investment in joint ventures is included as part of governmental activities	(321,591)
Long-term debt is not due and payable in the current period and is not reported in the funds	(12,298,000)
Interest payable is not accrued in the funds	(106,732)
Compensated absences are not included as a liability of the funds	(6,319,670)
General insurance liability is not included as a liability of the funds	(834,912)
Workers' compensation liability is not included as a liability of the funds	<u>(690,000)</u>

Net Assets of Governmental Activities	<u>\$ 52,941,170</u>
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City of Dearborn Heights, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2006

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
General property taxes	\$ 17,854,910	\$ -	\$ -	\$ 1,352,954	\$ 19,207,864
Licenses and permits	1,378,181	-	-	-	1,378,181
Federal grants	15,604	-	-	1,450,451	1,466,055
State-shared revenues, grants, and other state aid	6,098,332	2,330,535	947,064	282,608	9,658,539
Local revenue	-	377,782	545,188	-	922,970
Charges for services	1,455,057	-	-	-	1,455,057
Fines and forfeitures	3,292,603	-	-	377,240	3,669,843
Interest income	428,060	28,220	97,258	133,484	687,022
Drug enforcement revenue	-	-	-	147,936	147,936
Other	1,459,477	-	4,163	174,575	1,638,215
Total revenues	31,982,224	2,736,537	1,593,673	3,919,248	40,231,682
Expenditures					
Current:					
General government	7,195,606	-	-	-	7,195,606
Public safety	19,151,151	-	-	461,479	19,612,630
Public works	3,710,308	3,061,846	1,272,692	-	8,044,846
Community and economic development	75,861	-	-	1,690,966	1,766,827
Recreation and culture	1,008,737	-	-	1,216,068	2,224,805
Capital outlay	-	-	-	176,870	176,870
Debt service	-	-	-	229,531	229,531
Total expenditures	31,141,663	3,061,846	1,272,692	3,774,914	39,251,115
Excess of Revenues Over (Under)					
Expenditures	840,561	(325,309)	320,981	144,334	980,567
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	373,528	-	-	-	373,528
Proceeds from issuance of debt	-	-	-	3,215,000	3,215,000
Transfer to escrow agent (Note 7)	-	-	-	(3,139,750)	(3,139,750)
Transfers in	-	-	-	209,401	209,401
Transfers out	(209,401)	-	-	-	(209,401)
Total other financing sources (uses)	164,127	-	-	284,651	448,778
Net Changes in Fund Balances	1,004,688	(325,309)	320,981	428,985	1,429,345
Fund Balances - Beginning of year	3,400,076	638,795	2,277,934	2,270,863	8,587,668
Fund Balances - End of year	\$ 4,404,764	\$ 313,486	\$ 2,598,915	\$ 2,699,848	\$ 10,017,013

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ 1,429,345**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	\$ 6,274,538	
Depreciation expense	(2,821,369)	
Net book value of assets disposed	<u>(103,201)</u>	
		3,349,968

Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the government-wide statements		137,192
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Activity related to the joint venture is not required to be recorded in the governmental funds, but is recorded in the statement of activities		820,387
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Bond proceeds is a revenue item in the governmental funds, but not in the statement of activities (where it increases long-term debt)		(3,215,000)
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Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		3,497,000
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Governmental funds report interest expense based on amounts paid in cash during the fiscal year; on the statement of activities, interest expense is expensed based upon accrued expense		3,688
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Decrease in estimated general liability claims is recorded in the statement of activities		80,240
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Increase in estimated workers' compensation claims is recorded in the statement of activities		(415,000)
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities		<u>(327,363)</u>
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Change in Net Assets of Governmental Activities **\$ 5,360,457**

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Net Assets June 30, 2006

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 3,951,665
Customer receivables	3,988,876
Due from other funds (Note 6)	130,866
Inventories, prepaids, and other assets	<u>311,952</u>
Total current assets	8,383,359
Noncurrent assets:	
Restricted assets (Note 8)	5,726,815
Capital assets (Note 5)	<u>89,456,749</u>
Total noncurrent assets	<u>95,183,564</u>
Total assets	103,566,923
Liabilities	
Current liabilities:	
Accounts payable	980,205
Accrued and other liabilities	261,865
Due to other funds (Note 6)	371,864
Deposits	70,614
Current portion of compensated absences	51,907
Current portion of long-term debt (Note 7)	<u>3,215,477</u>
Total current liabilities	4,951,932
Noncurrent liabilities:	
Provision for compensated absences - Net of current portion	207,628
Long-term debt - Net of current portion (Note 7)	<u>33,020,447</u>
Total noncurrent liabilities	<u>33,228,075</u>
Total liabilities	<u>38,180,007</u>
Net Assets	
Investment in capital assets - Net of related debt	53,220,825
Restricted for debt payments	5,726,815
Unrestricted	<u>6,439,276</u>
Total net assets	<u><u>\$ 65,386,916</u></u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise - Water and Sewer Fund
Operating Revenues	
Water and sewer services	\$ 12,020,483
Other operating revenue	<u>757,828</u>
Total operating revenues	12,778,311
Operating Expenses	
Water and sewage disposal charges	6,485,985
Transmission and distribution expense	1,408,154
Administrative and general expense	2,936,378
Depreciation	2,442,083
Other operating expenses	<u>1,397,712</u>
Total operating expenses	<u>14,670,312</u>
Operating Loss	(1,892,001)
Nonoperating Revenue (Expense)	
Interest earned on investments	499,462
Interest expense	(1,381,301)
Property taxes	<u>4,170,867</u>
Income - Before contributions	1,397,027
Capital Contributions	<u>1,870,053</u>
Change in Net Assets	3,267,080
Net Assets - Beginning of year	<u>62,119,836</u>
Net Assets - End of year	<u><u>\$ 65,386,916</u></u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2006

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 12,651,085
Payments to suppliers	(9,190,641)
Payments to employees	(2,642,670)
Internal activity - Payments from other funds	664,014
Other payments	<u>(1,397,712)</u>
Net cash provided by operating activities	84,076
Cash Flows from Capital and Related Financing Activities	
Proceeds from property tax levy (restricted for debt service)	4,170,867
Property taxes turned over to the County	(1,180,331)
Principal and interest paid on long-term debt	(2,412,298)
Purchase of capital assets	(2,338,911)
Capital contributions	<u>853,427</u>
Net cash used in capital and related financing activities	(907,246)
Cash Flows from Investing Activities - Interest received on investments	<u>349,606</u>
Net Decrease in Cash and Cash Equivalents	(473,564)
Cash and Cash Equivalents - Beginning of year	<u>4,425,229</u>
Cash and Cash Equivalents - End of year	<u>\$ 3,951,665</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,892,001)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	2,442,083
Changes in assets and liabilities:	
Receivables	(132,190)
Due from other funds	292,150
Other assets	(70,148)
Accounts payable	(672,016)
Accrued liabilities	(260,630)
Due to other funds	371,864
Deposits	<u>4,964</u>
Net cash provided by operating activities	<u>\$ 84,076</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, the Tax Increment Finance Authority Fund and Community Development Block Grant Fund constructed water line improvements with a value of \$634,775 and \$381,852, respectively, and donated them to the City. The City is also amortizing deferred charges on bond refundings, which amounted to \$110,470 in the current year. Wayne County used \$1,964,810 of deposits held on behalf of the City to retire debt, while \$314,160 was issued in new debt during the year. Interest income totaling \$132,977 was earned on funds held at Wayne County.

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefits	Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 3,654,280	\$ 87,829
Marketable securities (Note 3):		
U.S. governmental securities	14,059,282	-
Common stock	78,407,442	-
Limited partnerships	676,739	-
Real estate investment trusts	2,408,416	-
Corporate bonds	16,751,913	-
Mutual funds	55,232,871	-
Cash held as collateral for securities lending (Note 3)	18,020,570	-
Pending trades receivable	146,632	-
Other receivables	274,145	-
Total assets	189,632,290	<u>\$ 87,829</u>
Liabilities		
Accounts payable	112,691	\$ -
Accrued and other liabilities	-	77,175
Due to other governmental units	1,515,077	10,654
Collateral for securities lending (Note 3)	18,020,570	-
Total liabilities	<u>19,648,338</u>	<u>\$ 87,829</u>
Net Assets - Held in trust for employees' retirement systems	<u>\$ 169,983,952</u>	

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 5,590,726
Net increase in fair value of investments	10,999,539
Less investment expenses	<u>(380,846)</u>
Net investment income	16,209,419
Contributions:	
Employer	2,866,624
Employee	<u>433,446</u>
Total contributions	3,300,070
Net securities lending income	<u>19,250</u>
Total additions	19,528,739
Deductions	
Benefit payments	7,381,283
Fringe benefits	1,515,077
Administrative expenses	<u>38,759</u>
Total deductions	<u>8,935,119</u>
Net Increase	10,593,620
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>159,390,332</u>
End of year	<u><u>\$ 169,983,952</u></u>

City of Dearborn Heights, Michigan

Component Units Statement of Net Assets June 30, 2006

	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets				
Cash and cash equivalents (Note 3)	\$ 3,651,658	\$ -	\$ -	\$ 3,651,658
Due from primary government	10,277	790	-	11,067
Due from other governmental units	-	-	10,654	10,654
Prepaid and other assets	25,682	-	-	25,682
Capital assets not being depreciated (Note 5)	2,767,640	-	-	2,767,640
Capital assets being depreciated (Note 5)	<u>22,156,680</u>	<u>-</u>	<u>-</u>	<u>22,156,680</u>
Total assets	28,611,937	790	10,654	28,623,381
Liabilities				
Accounts payable	144,120	-	-	144,120
Accrued liabilities	249,882	-	25,500	275,382
Due to primary government	6,026	-	-	6,026
Long-term debt (Note 7):				
Due within one year	1,050,000	-	-	1,050,000
Due in more than one year	<u>23,405,000</u>	<u>-</u>	<u>-</u>	<u>23,405,000</u>
Total liabilities	<u>24,855,028</u>	<u>-</u>	<u>25,500</u>	<u>24,880,528</u>
Net Assets				
Investment in capital assets - Net of related debt	469,320	-	-	469,320
Unrestricted	<u>3,287,589</u>	<u>790</u>	<u>(14,846)</u>	<u>3,273,533</u>
Total net assets	<u>\$ 3,756,909</u>	<u>\$ 790</u>	<u>\$ (14,846)</u>	<u>\$ 3,742,853</u>

City of Dearborn Heights, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/Contributions
Tax Increment Finance Authority			
Public works	\$ 1,519,939	\$ -	\$ -
Public safety	1,122,317	-	271,241
Recreation and culture	234,608	-	-
Community and economic development	75,153	-	-
Interest expense and bond issue costs	1,219,081	-	-
Total Tax Increment Finance Authority	4,171,098	-	271,241
Economic Development Corporation - Public works	-	-	-
Brownfield Redevelopment Authority - Public works	138,097	-	-
Total governmental activities	<u>\$ 4,309,195</u>	<u>\$ -</u>	<u>\$ 271,241</u>
General revenues:			
Property taxes			
Interest and other			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Component Units
Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (1,519,939)	\$ -	\$ -	\$ (1,519,939)
(851,076)	-	-	(851,076)
(234,608)	-	-	(234,608)
(75,153)	-	-	(75,153)
(1,219,081)	-	-	(1,219,081)
(3,899,857)	-	-	(3,899,857)
-	-	-	-
-	-	(138,097)	(138,097)
(3,899,857)	-	(138,097)	(4,037,954)
2,995,864	-	33,519	3,029,383
171,040	-	-	171,040
3,166,904	-	33,519	3,200,423
(732,953)	-	(104,578)	(837,531)
4,489,862	790	89,732	4,580,384
\$ 3,756,909	\$ 790	\$ (14,846)	\$ 3,742,853

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Dearborn Heights (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The Building Authority does not have separately issued financial statements.

Discretely Presented Component Units - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- (a) The Tax Increment Finance Authority (TIFA) was formed under Act 450 of the Public Acts of 1980 to develop south Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The TIFA's governing body, which consists of 13 individuals, is appointed by the mayor. Separately issued financial statements for the TIFA can be obtained at 25637 Michigan Avenue, Dearborn Heights, Michigan 48125.
- (b) The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents to the City. The Corporation's governing body, which consists of four individuals, is appointed by the mayor. This entity had no activity in the current year and does not have separately issued financial statements.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

- (c) The Brownfield Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Dearborn Heights. The Authority's governing body, which consists of 13 individuals, is comprised of the Tax Increment Finance Authority's board members. Currently, the Authority is in the preliminary stages of development and does not have separately issued financial statements.

Jointly Governed Organization - The City is a member of the Central Wayne County Sanitation Authority (the "Sanitation Authority") and has appointed one member to the joint venture's governing board. The Sanitation Authority provides household refuse disposal services primarily for the benefit of constituents in the member municipalities. During the current fiscal year, the City contributed approximately \$1,551,000 for sanitation costs passed through the Sanitation Authority, which is reported in the Corporate Fund's expenditures. In addition, the City has recorded a net liability related to the Sanitation Authority of approximately \$322,000 in the government-wide statement of net assets (net liability recorded represents the City's portion of the Sanitation Authority's net deficit). Complete financial statements for the Sanitation Authority can be obtained from the administrative offices at 3759 Commerce Court, Wayne, MI 48184.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

Corporate Fund - The Corporate Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.

Local Streets Fund - The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fiduciary activities:

Pension Trust Funds - The Pension Trust Funds account for the activities of the police and fire employees' retirement system and general employees' retirement system, which accumulate resources for pension benefit payments to qualified employees.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

The effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the City approximated \$1.460 billion (a portion of which is captured by the TIFA), on which taxes levied consisted of 6.3847 mills for operating purposes, 1.5005 mills for public safety expenditures, 0.7316 mills for solid waste expenditures, 1.7775 mills for Act 345 contributions, 2.2314 mills for sanitation expenditures, 0.9277 mills for library operations and construction, 2.2635 mills for CSO debt service, and .7762 mills for EPA debt service. This resulted in approximately \$8,752,000 for operating, \$2,057,000 for public safety expenditures, \$1,003,000 for solid waste expenditures, \$2,437,000 for Act 345 contributions (used for pension and retiree health care and other benefits), \$3,059,000 for sanitation expenditures, \$1,353,000 for library operations and construction, \$3,106,000 for CSO debt service, and \$1,065,000 for EPA debt service.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets consist of deposits at the county being held for the construction and debt service of the City's sewer lines. The restricted assets result mainly from the issuance of debt and net assets have been reserved for restricted assets.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and a 10 percent salvage value is assumed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads, sidewalks, and street signs	10 to 20 years
Water systems	50 to 75 years
Sewer systems	40 to 50 years
Buildings and building improvements	50 years
Machinery, furniture, equipment, and vehicles	5 to 15 years
Library books	3 years

Compensated Absences (Vacation, Longevity, and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick, vacation pay, and longevity benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the fund financial statements only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted for the Corporate Fund, Community Development Block Grant Fund, and the Major and Local Streets Funds on an activity basis. The State Budget Act requires that budgets are adopted for all Special Revenue Funds. The City does not adopt budgets for all Special Revenue Funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than a reduction of expenditures.

Any expenditures that exceed the budget must be approved by City Council through a budget amendment. The Council approves all budget amendments. During the current year, there were no significant budget amendments. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated.

The budget process begins in December and January with the comptroller’s office budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. These forms are due back to the comptroller’s office by late January. The comptroller’s office then analyzes these amounts and calculates the total budget.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

In February, the mayor's office schedules meetings with all major departments to review their proposed budget and the budget is adjusted accordingly.

In late February and early March, the comptroller's office reviews the budget to verify that it balances. At this time, the mayor's office reschedules all major departments to do a final review of the departmental budgets. After the final review, the comptroller's office organizes the final proposed budget to deliver to the City Council. The City Charter requires that the City Council receive the proposed budget by April 1.

During April and May, the City Council reviews the budget with the department heads. City Council meetings, held in April and May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget must be adopted by the City Council by the first Monday in June. After the budget has been adopted, all budget amendments must be approved by the City Council.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the following expenditures were in excess of the amounts budgeted:

	Budget	Actual
Corporate Fund - Civil Service Commission	\$ 7,127	\$ 8,474
Corporate Fund - Civil Service Act No. 78	17,577	17,805
Corporate Fund - General government	4,889,238	5,126,960
Major Streets Fund - Street maintenance	1,100,000	1,206,109
Major Streets Fund - Traffic services	60,000	109,770
Major Streets Fund - Street and bridge construction	1,326,847	1,346,487
Local Streets Fund - Administration	96,000	96,729
Local Streets Fund - Street and bridge construction	274,406	545,188

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The unfavorable variance in the Corporate Fund for civil service expenditures related to unanticipated costs in filling various dispatcher vacancies. The unfavorable variance in the Corporate Fund for general government expenditures related to fringe benefit reimbursements that were less than what was budgeted for. These reimbursements are from other funds and are recorded as reductions to general government expenditures. The unfavorable variances for the Major and Local Streets Funds for maintenance, construction, traffic services, and administration costs relate to the timing of the expenditures. These expenditures were to be included in the budget for the next fiscal year but took place in the current year.

Fund Deficit - The Brownfield Redevelopment Authority (one of the City's component units) has an accumulated fund deficit as of June 30, 2006. The deficit will be eliminated through reduced recurring expenditures and increased tax collections in subsequent periods.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension System Trust Funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated nine banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments. The City's deposits and investment policies are in accordance with statutory authority.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

As permitted by state statutes, and under the provisions of a Securities Lending Authorization Agreement, the Police and Fire Pension System Trust Fund lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension System's custodial bank manages the securities lending program and received cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2006, only United States currency was received as collateral.

The Fire and Police Pension System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial bank.

The Fire and Police Pension System and the borrower maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2006 was 165 days. Because the loans are terminable on demand, their duration did not generally match the maturity date of investments made with cash collateral. The aggregate collateral held and the fair value of the underlying securities on loan for the Fire and Police Pension System as of June 30, 2006 was \$18,020,570 and \$17,614,384, respectively.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$11,929,207 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

At year end, the City's component units had \$3,527,743 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Investment Maturities		
		Less than 5 Years	5 to 15 Years	Over 15 Years
Asset-backed securities (pension)	\$ 1,735,177	\$ 726,605	\$ 948,384	\$ 60,188
Corporate bonds (pension)	15,016,737	6,343,260	6,225,358	2,448,119
CMO/REMIC holdings (pension)	333,925	-	73,878	260,047
U.S. federal agencies (pension)	1,436,403	1,436,403	-	-
Mortgage-backed securities (pension)	3,768,914	42,850	1,263,940	2,462,124
Other debt instruments (pension)	105,311	-	-	105,311
U.S. Treasury notes (pension)	8,519,512	3,918,314	2,529,863	2,071,335
Total	<u>\$ 30,915,979</u>	<u>\$ 12,467,432</u>	<u>\$ 11,041,423</u>	<u>\$ 7,407,124</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investments	\$ 2,861,142	AI	Moody's
Asset-backed securities (pension)	1,735,177	AAA	Standard and Poor's
Corporate bonds (pension)	1,462,900	AAA	Standard and Poor's
Corporate bonds (pension)	1,222,191	AA	Standard and Poor's
Corporate bonds (pension)	1,700,645	AA-	Standard and Poor's
Corporate bonds (pension)	3,667,844	A+	Standard and Poor's
Corporate bonds (pension)	2,239,456	A	Standard and Poor's
Corporate bonds (pension)	649,253	A-	Standard and Poor's
Corporate bonds (pension)	1,815,881	BBB+	Standard and Poor's
Corporate bonds (pension)	1,933,321	BBB	Standard and Poor's
Corporate bonds (pension)	312,521	BBB-	Standard and Poor's
Corporate bonds (pension)	12,725	BB+	Standard and Poor's
CMO/REMIC holdings (pension)	333,925	Not rated	
U.S. federal agency (pension)	1,436,403	AAA	Standard and Poor's
Mortgage-backed securities (pension)	3,768,914	Not rated	
Other debt instruments (pension)	105,311	Not rated	
U.S. Treasury notes (pension)	6,993,631	AAA	Standard and Poor's
U.S. Treasury notes (pension)	1,525,881	Not rated	
Mutual funds (pension)	55,232,871	Not rated	

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 229,372	\$ -
Grant payments received prior to meeting all eligibility requirements	-	4,900
Other	-	3,550
Total	<u>\$ 229,372</u>	<u>\$ 8,450</u>

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2005	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 5,567,340	\$ -	\$ 42,995	\$ (8,316)	\$ 5,602,019
Construction in progress	12,279,120	(12,279,120)	-	-	-
Subtotal	17,846,460	(12,279,120)	42,995	(8,316)	5,602,019
Capital assets being depreciated:					
Roads, sidewalks, and street signs	44,519,065	-	5,397,487	-	49,916,552
Buildings and improvements	12,113,425	12,279,120	493,745	(378,500)	24,507,790
Machinery, equipment, and vehicles	8,330,300	-	340,311	-	8,670,611
Library books	2,707,000	-	-	-	2,707,000
Subtotal	67,669,790	12,279,120	6,231,543	(378,500)	85,801,953
Accumulated depreciation:					
Roads, sidewalks, and street signs	13,098,688	-	2,005,826	-	15,104,514
Buildings and improvements	4,378,832	-	328,969	(283,615)	4,424,186
Machinery, equipment, and vehicles	5,686,708	-	486,574	-	6,173,282
Library books	2,436,300	-	-	-	2,436,300
Subtotal	25,600,528	-	2,821,369	(283,615)	28,138,282
Net capital assets being depreciated	42,069,262	12,279,120	3,410,174	(94,885)	57,663,671
Net capital assets	<u>\$ 59,915,722</u>	<u>\$ -</u>	<u>\$ 3,453,169</u>	<u>\$ (103,201)</u>	<u>\$ 63,265,690</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Business-type Activities				
Capital assets not being depreciated:				
Land	451,171	-	-	451,171
Construction in progress	146,164	-	-	146,164
Subtotal	597,335	-	-	597,335
Capital assets being depreciated:				
Water system	19,146,821	1,016,626	101,663	20,061,784
Sewer system	90,795,960	1,868,396	186,840	92,477,516
Buildings and building improvements	438,694	-	-	438,694
Equipment, vehicles, furniture, and fixtures	3,780,324	470,516	-	4,250,840
Subtotal	114,161,799	3,355,538	288,503	117,228,834
Accumulated depreciation:				
Water system	6,928,603	465,177	101,663	7,292,117
Sewer system	15,772,204	1,803,669	186,840	17,389,033
Buildings and building improvements	365,439	3,339	-	368,778
Equipment, vehicles, furniture, and fixtures	3,149,594	169,898	-	3,319,492
Subtotal	26,215,840	2,442,083	288,503	28,369,420
Net capital assets being depreciated	87,945,959	913,455	-	88,859,414
Net capital assets	<u>\$ 88,543,294</u>	<u>\$ 913,455</u>	<u>\$ -</u>	<u>\$ 89,456,749</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 176,931
Public safety	398,669
Public works	2,118,909
Recreation and culture	126,860

Total governmental activities \$ 2,821,369

Business-type activities - Water and sewer \$ 2,442,083

Public works-related capital expenditures incurred by the Tax Increment Finance Authority, a component unit of the City, resulting in assets that are maintained by the Water and Sewer Fund of the City, are recorded as assets of the Water and Sewer Fund. A correlating revenue related to capital contributions is reflected in the Water and Sewer Fund in the year the expenditure is incurred by the Tax Increment Finance Authority.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Component Unit

	Balance July 1, 2005	Additions	Balance June 30, 2006
Capital assets not being depreciated - Land	\$ 2,767,640	\$ -	\$ 2,767,640
Capital assets being depreciated:			
Buildings and improvements	21,370,796	134,382	21,505,178
Roads	5,000,000	-	5,000,000
Subtotal	26,370,796	134,382	26,505,178
Accumulated depreciation:			
Buildings and improvements	1,209,177	739,321	1,948,498
Roads	2,200,000	200,000	2,400,000
Subtotal	3,409,177	939,321	4,348,498
Net capital assets being depreciated	22,961,619	(804,939)	22,156,680
Net capital assets	\$ 25,729,259	\$ (804,939)	\$ 24,924,320

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Corporate Fund	Major Streets Fund	\$ 299,597
Corporate Fund	Local Streets Fund	33,766
Corporate Fund	Water and Sewer Fund	371,864
Corporate Fund	Other nonmajor funds	106,010
	Total Corporate Fund	811,237
Other nonmajor funds	Corporate Fund	375,860
	Total governmental funds	1,187,097
Water and Sewer Fund	Corporate Fund	130,866
	Total due from other funds	\$ 1,317,963

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers - The Corporate Fund transferred \$154,281 and \$55,120 to the Fire Station Bonds nonmajor Debt Service Fund and the Library nonmajor Special Revenue Fund, respectively, for current year debt service payments.

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Building Authority Fire Station Bonds	2028	4.875%-5.15%	\$ 3,150,000	\$ -	\$ 3,150,000	\$ -	\$ -
Building Authority Refunding Bonds	2028	3.25%-4.15%	-	3,215,000	-	3,215,000	85,000
Energy Savings Plan note payable	2006	6.10%	85,000	-	85,000	-	-
Library Bonds	2033	3.00%-4.75%	8,880,000	-	130,000	8,750,000	140,000
Installment purchase contract - Radio system	2008	4.90%	330,000	-	105,000	225,000	110,000
Installment purchase contract - Telephone system	2009	3.18%	135,000	-	27,000	108,000	27,000
Total governmental activities			<u>\$ 12,580,000</u>	<u>\$ 3,215,000</u>	<u>\$ 3,497,000</u>	<u>\$ 12,298,000</u>	<u>\$ 362,000</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
Wayne County North Huron Valley - Rouge Valley Refunding Bonds	2009	5.80%-6.00%	\$ 1,880,310	\$ -	\$ 436,875	\$ 1,443,435	\$ 464,835
Limited Tax Wastewater Disposal System Refunding Bonds	2010	4.70%-4.90%	2,535,000	-	460,000	2,075,000	460,000
Wayne County Rouge Valley Wastewater Control System Bonds	2017	4.00%-4.85%	10,230,000	-	670,000	9,560,000	695,000
County contractual obligations:							
State Revolving Loan Fund	2016	2.25%	1,600,000	-	130,000	1,470,000	130,000
State Revolving Loan Fund	2016	2.25%	541,144	-	50,547	490,597	56,232
State Revolving Loan Fund	2021	2.25%	17,103,086	-	1,022,445	16,080,641	1,051,168
State Revolving Loan Fund	2022	2.25%	202,474	-	10,239	192,235	10,472
State Revolving Loan Fund	2021	2.25%	4,466,166	-	236,459	4,229,707	240,587
State Revolving Loan Fund	2026	6.60%	-	314,160	-	314,160	13,200
Downriver Sewage Disposal Bonds - Series A Refunding	2014	4.50%-5.125%	462,273	-	41,971	420,302	43,969
Downriver Sewage Disposal Completion Bonds	2019	4.50%-5.125%	927,236	-	47,741	879,495	50,014
Subtotal			39,947,689	314,160	3,106,277	37,155,572	3,215,477
Less deferred charge on refunding			1,030,118	-	110,470	919,648	-
Total business-type activities			\$ 38,917,571	\$ 314,160	\$ 2,995,807	\$ 36,235,924	\$ 3,215,477

Long-term debt for the component units is as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds:							
Limited Tax Development Bonds	2009	5.70%-6.30%	\$ 2,050,000	\$ -	\$ 500,000	\$ 1,550,000	\$ 500,000
Limited Tax Development Bonds	2019	4.75%-5.00%	2,775,000	-	145,000	2,630,000	150,000
Tax Increment Bonds, Series 2001-A	2031	4.25%-5.00%	20,650,000	-	375,000	20,275,000	400,000
Total general obligation bonds			\$ 25,475,000	\$ -	\$ 1,020,000	\$ 24,455,000	\$ 1,050,000

Annual debt service requirements to maturity for the above governmental, business-type, and component units bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 362,000	\$ 525,558	\$ 887,558	\$ 3,215,477	\$ 1,164,014	\$ 4,379,491	\$ 1,050,000	\$ 1,173,760	\$ 2,223,760
2008	392,000	500,311	892,311	3,316,817	1,047,895	4,364,712	1,110,000	1,117,086	2,227,086
2009	287,000	485,936	772,936	3,493,209	926,161	4,419,370	1,140,000	1,057,639	2,197,639
2010	307,000	313,423	620,423	3,059,559	795,666	3,855,225	645,000	1,012,043	1,657,043
2011	295,000	466,803	761,803	2,566,931	691,431	3,258,362	680,000	983,403	1,663,403
2012-2016	1,730,000	2,161,787	3,891,787	13,913,828	2,182,887	16,096,715	4,095,000	4,397,328	8,492,328
2017-2021	2,255,000	1,782,840	4,037,840	7,494,407	360,768	7,855,175	4,610,000	3,369,809	7,979,809
2022-2026	2,820,000	1,259,653	4,079,653	95,344	4,641	99,985	4,900,000	2,186,250	7,086,250
2027-2031	2,810,000	611,229	3,421,229	-	-	-	6,225,000	818,125	7,043,125
2032-2036	1,040,000	74,100	1,114,100	-	-	-	-	-	-
Total	\$ 12,298,000	\$ 8,181,640	\$ 20,479,640	\$ 37,155,572	\$ 7,173,463	\$ 44,329,035	\$ 24,455,000	\$ 16,115,443	\$ 40,570,443

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2006, approximately \$11.0 million of bonds outstanding are considered defeased.

Refunded Debt - During the year, the City issued \$3,215,000 in general obligation bonds with an average interest rate of 4.09 percent. The proceeds of these bonds were used to advance refund \$3,075,000 of outstanding bonds with an average interest rate of 5.06 percent. The net proceeds of \$3,139,750 (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's schedule of debt obligations. The advance refunding reduced the total debt service payments over the maturity of the bonds by approximately \$14,300 per year, which represents an economic gain of approximately \$243,500 net present value. The new bonds are payable through 2028 at interest rates ranging from 3.25 percent to 4.15 percent.

Note 8 - Restricted Assets

Restricted assets at June 30, 2006 consist of deposits at the county being held for water and sewer line construction and debt payments. As discussed in Note 1, the restricted assets result mainly from the issuance of debt and net assets have been reserved for restricted assets.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal Risk Management Authority for claims relating to general liability and auto liability, auto physical damage, and property loss claims; the City is uninsured for workers' compensation claims within certain limits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for workers' compensation and general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Workers' Compensation	General Liability
Estimated liability - July 1, 2004	\$ 230,000	\$ 990,047
Estimated claims incurred, including changes in estimates	190,206	255,130
Claim payments	<u>(145,206)</u>	<u>(330,025)</u>
Estimated liability - June 30, 2005	275,000	915,152
Estimated claims incurred, including changes in estimates	557,951	130,249
Claim payments	<u>(142,951)</u>	<u>(210,489)</u>
Estimated liability - June 30, 2006	<u>\$ 690,000</u>	<u>\$ 834,912</u>

The City is involved in litigation related to various other matters. At the current time, the outcome or potential liability related to these matters cannot be determined. In addition, the extent of insurance coverage related to these matters cannot be determined at this time.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

General Government Employees' Retirement System

Plan Description - The General Government Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the Pension Committee for the General Government Employees' Retirement System; this plan covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation (using data as of June 30, 2005), membership consisted of 132 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 140 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are not required. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are paid for by the Corporate Fund.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$620,316 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.00 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 15 years.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Reserves - As of June 30, 2006, the plan's required reserves have been funded as follows:

Legally required reserves - Reserve for retiree benefit payments	\$ 18,076,784
Additional reserves - Reserve for employer contributions	19,131,915
Total reserves	<u>\$ 37,208,699</u>

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 355,408	\$ 606,234	\$ 620,316
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Policemen and Firemen Retirement System

Plan Description - The Policemen and Firemen Retirement System is a single-employer defined benefit pension plan that is administered by the Pension Committee for the Policemen and Firemen Retirement System; this plan covers all full-time police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation (using June 30, 2005 data), membership consisted of 155 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 134 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and required a contribution from the policemen, police supervisors, and firemen of 5 percent, 5.5 percent, and 5 percent, respectively. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through contributions to the plan.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$301,308 for the plan was equal to the City's required and actual contribution. In addition, the City contributed \$1,945,000 for retiree medical expenses, administrative and investment costs of the plan, and retiree payouts. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.00 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 15 years.

Reserves - As of June 30, 2006, the plan's required reserves have been funded as follows:

Legally required reserves:

Reserve for employees' contributions	\$ 8,758,263
Reserve for retiree benefit payments	56,146,548
Additional reserves - Reserve for employer contributions	<u>67,870,442</u>
Total reserves	<u>\$ 132,775,253</u>

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 1,354,713	\$ 878,998	\$ 301,308
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

In a prior period, the Police and Fire Retirement System assumed the reporting responsibility for the payment of postemployment health benefits for retired police and fire employees that were previously recorded as an expenditure in the Corporate Fund. During the year ended June 30, 2006, the City's Corporate Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling approximately \$1,515,000. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees.

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 287 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with partial contributions required by some of the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due (which is not an actuarially determined amount); during the year, this amounted to approximately \$786,000 in the Corporate Fund and approximately \$1,515,000 in the Policemen and Firemen Retirement System.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 12 - Reserved and Designated Fund Balances/Net Assets

Fund balances/net assets have been reserved for the following purposes:

	Corporate Fund	Capital Projects Fund	Water and Sewer Fund	Trust and Agency Fund
Debt service and other	\$ 1,849,713	\$ -	\$ 5,726,815	\$ -
Cable improvements	184,000	-	-	-
Capital Projects Fund	-	286,168	-	-
Employees' retirement systems	-	-	-	169,983,952
Total	<u>\$ 2,033,713</u>	<u>\$ 286,168</u>	<u>\$ 5,726,815</u>	<u>\$ 169,983,952</u>

Unreserved fund balances have been designated for the following purposes:

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Funds	Component Units
Designated:					
Working capital purposes	\$ 1,138,386	\$ -	\$ -	\$ -	\$ -
Insurance claims	685,912	-	-	-	-
Retiree benefit	153,639	-	-	-	-
911 expenditures	953,591	-	-	-	-
Capital projects and other	-	-	-	-	3,383,679
Total designated	2,931,528	-	-	-	3,383,679
Undesignated	<u>(560,477)</u>	<u>313,486</u>	<u>2,598,915</u>	<u>2,413,680</u>	<u>-</u>
Total unreserved and undesignated fund balance	<u>\$ 2,371,051</u>	<u>\$ 313,486</u>	<u>\$ 2,598,915</u>	<u>\$ 2,413,680</u>	<u>\$ 3,383,679</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 13 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity is as follows:

Cumulative shortfall at July 1, 2005		\$ (28,186)
Current year building permit revenue		814,694
Related expenditures:		
Direct costs	\$ 711,705	
Estimated indirect costs	<u>177,926</u>	
Total construction code expenditures		<u>889,631</u>
Cumulative shortfall at June 30, 2006		<u><u>\$ (103,123)</u></u>

Note 14 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities were required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the projects is approximately \$280,000,000, with the City's share estimated to be approximately \$35,495,000. To date, and including approved debt yet to be issued as of June 2006 as discussed below, the City has issued approximately \$35,495,000 in debt to fund this project. In addition, the City will have other significant sewer commitments under the Clean Water Act; the amount of these commitments cannot presently be determined. To date, approximately \$17,106,000 has been collected through the property tax levy for debt payments.

A new capital improvement bond and completion bond have been approved and are awaiting issuance. The City's portion of these bonds will be \$251,130 and \$1,629,800, respectively.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2006

Note 15 - Retirement System Condensed Information

The following are condensed financial statements for the retirement systems:

	General Employees' Retirement System	Police and Fire Retirement System	Total
Statement of Net Assets			
Cash and investments	\$ 37,126,800	\$ 152,084,713	\$ 189,211,513
Other assets	81,899	338,878	420,777
Liabilities	-	19,648,338	19,648,338
Net assets	37,208,699	132,775,253	169,983,952
Statement of Changes in Net Assets			
Investment income	3,044,039	13,165,380	16,209,419
Contributions	620,316	2,679,754	3,300,070
Other increases	-	19,250	19,250
Benefit payments	2,017,271	6,879,089	8,896,360
Other decreases	-	38,759	38,759
Change in net assets	1,647,084	8,946,536	10,593,620

Required Supplemental Information

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 3,400,076	\$ 3,400,076	\$ 3,400,076	\$ -
Revenues				
Property taxes	17,866,322	17,866,322	17,854,910	(11,412)
Federal grants	-	-	15,604	15,604
State-shared revenue	6,259,500	6,275,300	6,098,332	(176,968)
Reimbursement from other funds	3,705,000	3,975,030	3,342,641	(632,389)
Licenses and permits	1,217,800	1,274,900	1,378,181	103,281
Interest earned	175,000	175,000	428,060	253,060
Court costs, fines, and violations	2,275,000	2,957,650	3,292,603	334,953
Charges for services	1,509,450	1,609,450	1,455,057	(154,393)
Miscellaneous	1,757,518	1,625,676	1,833,005	207,329
Total revenues	34,765,590	35,759,328	35,698,393	(60,935)
Expenditures				
General government:				
Legislative	82,988	83,708	83,620	88
Executive	315,647	321,647	301,665	19,982
Elections	228,678	228,678	158,053	70,625
Treasurer's office	406,861	412,981	397,464	15,517
City Clerk's office	249,344	274,394	263,826	10,568
Comptroller's office	452,530	452,730	451,989	741
Assessor's office	384,627	384,627	367,220	17,407
Civil Service Commission	6,327	7,127	8,474	(1,347)
Board of Appeals	9,812	9,812	4,941	4,871
Building Authority	857	1,157	1,050	107
Civil Service - Act No. 78	7,577	17,577	17,805	(228)
Data processing	95,000	95,000	89,860	5,140
Personnel	126,405	126,405	125,075	1,330
General government	4,929,011	4,889,238	5,126,960	(237,722)
General Government Employees' Pension Commission	183,414	181,414	168,353	13,061
Public safety:				
Judicial	1,577,691	1,660,341	1,603,802	56,539
Police department	11,039,910	11,715,310	11,505,206	210,104
Fire department	5,354,130	5,456,420	5,186,889	269,531
Protective inspection	736,648	751,148	711,705	39,443
Corporation counsel	113,500	153,500	143,549	9,951
Public works:				
Building maintenance	975,499	1,022,099	982,721	39,378
Sanitation	3,883,000	3,883,000	3,551,175	331,825
Highways, streets, and bridges	2,226,588	2,246,618	2,148,304	98,314
Community and Economic Development:				
Planning Commission	12,736	11,236	8,166	3,070
Cable TV Commission	67,329	70,330	67,695	2,635

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Recreation and culture:				
Recreation	\$ 736,529	\$ 728,729	\$ 688,050	\$ 40,679
Young Recreation Center	334,352	345,502	320,687	24,815
Transfers to other funds	228,600	228,600	209,401	19,199
Total expenditures	34,765,590	35,759,328	34,693,705	1,065,623
Fund Balance - End of year	\$ 3,400,076	\$ 3,400,076	\$ 4,404,764	\$ 1,004,688

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Year Ended June 30, 2006

	Major Streets Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Fund Balance - Beginning of year	\$ 638,795	\$ 638,795	\$ 638,795	\$ -
Revenues				
State sources	2,435,000	2,435,000	2,330,535	(104,465)
Local sources	211,250	211,250	377,782	166,532
Interest income	16,000	16,000	28,220	12,220
Transfer from other funds	364,597	364,597	-	(364,597)
Total revenues	3,026,847	3,026,847	2,736,537	(290,310)
Expenditures - Public works				
Street maintenance	1,100,000	1,100,000	1,206,109	(106,109)
Winter maintenance	300,000	300,000	185,784	114,216
Administration	240,000	240,000	213,696	26,304
Traffic services	60,000	60,000	109,770	(49,770)
Street and bridge construction	1,326,847	1,326,847	1,346,487	(19,640)
Total expenditures	3,026,847	3,026,847	3,061,846	(34,999)
Fund Balance - End of year	\$ 638,795	\$ 638,795	\$ 313,486	\$ (325,309)
	Local Streets Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Fund Balance - Beginning of year	\$ 2,277,934	\$ 2,277,934	\$ 2,277,934	\$ -
Revenues				
State sources	990,000	990,000	947,064	(42,936)
Local sources	250,000	250,000	545,188	295,188
Interest income	20,000	20,000	97,258	77,258
Miscellaneous revenue	3,000	3,000	4,163	1,163
Total revenues	1,263,000	1,263,000	1,593,673	330,673
Expenditures - Public works				
Street maintenance	762,594	762,594	610,298	152,296
Winter maintenance	40,000	40,000	4,344	35,656
Administration	96,000	96,000	96,729	(729)
Traffic services	90,000	90,000	16,133	73,867
Street and bridge construction	274,406	274,406	545,188	(270,782)
Total expenditures	1,263,000	1,263,000	1,272,692	(9,692)
Fund Balance - End of year	\$ 2,277,934	\$ 2,277,934	\$ 2,598,915	\$ 320,981

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2006

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
--------------------------------	----------------------------------------	---------------------------------------------------	---------------------------------	------------------------------------	---------------------------	--------------------------------------------------

General Government Employees' Retirement System

6/30/01	\$ 37,855,086	\$ 29,355,631	\$ (8,499,455)	128.95	\$ 5,393,871	(157.58)
6/30/02	40,008,468	30,990,667	(9,017,801)	129.10	5,860,613	(153.87)
6/30/03	34,543,090	32,352,969	(2,190,121)	106.77	5,397,409	(40.58)
6/30/04	33,166,549	33,982,504	815,955	97.60	5,435,052	15.01
6/30/05	34,359,640	35,619,913	1,260,273	96.46	5,235,222	24.07
6/30/06	35,819,056	36,448,512	629,456	98.27	5,566,841	11.31

Policemen and Firemen Retirement System

6/30/01	\$ 91,879,860	\$ 84,734,677	\$ (7,145,183)	108.43	\$ 9,112,748	(78.41)
6/30/02	98,858,861	90,946,241	(7,912,620)	108.70	9,651,854	(81.98)
6/30/03	92,930,343	91,993,127	(937,216)	101.02	9,650,586	(9.71)
6/30/04	98,965,335	94,151,970	(4,813,365)	105.11	9,406,277	(51.17)
6/30/05	113,426,227	103,382,549	(10,043,678)	109.72	9,693,623	(103.61)
6/30/06	122,582,685	108,484,408	(14,098,277)	113.00	9,818,415	(143.59)

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2006

The schedule of employer contributions is as follows:

General Government Employees' Retirement System

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
2001	\$ 106,675	100.0
2002	-	100.0
2003	-	100.0
2004	355,408	100.0
2005	606,234	100.0
2006	620,316	100.0

Policemen and Firemen Retirement System

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
2001	\$ 522,322	100.0
2002	494,535	100.0
2003	617,806	100.0
2004	1,354,713	100.0
2005	878,998	100.0
2006	301,308	100.0

*The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	15-year level dollar
Amortization period (perpetual)	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2006

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	15-year level dollar
Amortization period (perpetual)	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

Other Supplemental Information

City of Dearborn Heights, Michigan

	Nonmajor Special Revenue Funds			
	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant	Building
Assets				
Cash and cash equivalents	\$ 55,784	\$ 5,045	\$ 6,394	\$ -
Due from other governmental units	-	-	59,495	-
Due from other funds	-	-	-	322,877
Total assets	<u>\$ 55,784</u>	<u>\$ 5,045</u>	<u>\$ 65,889</u>	<u>\$ 322,877</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,453	\$ -	\$ -	\$ -
Due to other funds	-	145	64,444	-
Escrow deposits	-	-	1,445	-
Accrued and other liabilities	-	-	-	-
Deferred revenue	-	4,900	-	-
Total liabilities	1,453	5,045	65,889	-
Fund Balances				
Reserved	-	-	-	-
Undesignated	54,331	-	-	322,877
Total fund balances	54,331	-	-	322,877
Total liabilities and fund balances	<u>\$ 55,784</u>	<u>\$ 5,045</u>	<u>\$ 65,889</u>	<u>\$ 322,877</u>

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

Nonmajor Special Revenue Funds			Nonmajor Capital Projects Fund	Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Housing Commission	Traffic Immobilization	Library	Capital Projects	Fire Station Bonds	
\$ 3,552	\$ 46	\$ 2,396,930	\$ 286,168	\$ -	\$ 2,753,919
-	-	-	-	-	59,495
-	-	52,983	-	-	375,860
<u>\$ 3,552</u>	<u>\$ 46</u>	<u>\$ 2,449,913</u>	<u>\$ 286,168</u>	<u>\$ -</u>	<u>\$ 3,189,274</u>
\$ -	\$ -	\$ 368,682	\$ -	\$ -	\$ 370,135
2	-	41,419	-	-	106,010
-	-	-	-	-	1,445
-	-	3,386	-	-	3,386
3,550	-	-	-	-	8,450
3,552	-	413,487	-	-	489,426
-	-	-	286,168	-	286,168
-	46	2,036,426	-	-	2,413,680
-	46	2,036,426	286,168	-	2,699,848
<u>\$ 3,552</u>	<u>\$ 46</u>	<u>\$ 2,449,913</u>	<u>\$ 286,168</u>	<u>\$ -</u>	<u>\$ 3,189,274</u>

City of Dearborn Heights, Michigan

	Nonmajor Special Revenue Funds			
	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant	Building
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue:				
Federal	-	-	1,450,451	-
State aids and grants	-	239,433	-	-
Interest earned	3,044	-	-	-
Fines	-	-	-	377,240
Miscellaneous	-	1,080	-	-
Drug enforcement revenue	147,936	-	-	-
Total revenues	150,980	240,513	1,450,451	377,240
Expenditures				
Current:				
Grant-related expenditures:				
General government	-	225,960	252,259	-
Public works	-	13,473	500,210	-
Public safety	-	1,080	53,000	-
Recreation	-	-	161,626	-
Community and economic development	-	-	483,356	-
Drug enforcement	190,238	-	-	-
Library expenses	-	-	-	-
Other	-	-	-	271,241
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	190,238	240,513	1,450,451	271,241
Excess of Revenues Over (Under) Expenditures	(39,258)	-	-	105,999
Other Financing Sources (Uses)				
Proceeds from issuance of debt	-	-	-	-
Transfer to escrow agent	-	-	-	-
Operating transfers in	-	-	-	-
Total other financing sources	-	-	-	-
Net Change in Fund Balances	(39,258)	-	-	105,999
Fund Balances - Beginning of year	93,589	-	-	216,878
Fund Balances - End of year	\$ 54,331	\$ -	\$ -	\$ 322,877

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

Nonmajor Special Revenue Funds			Nonmajor Capital Projects Fund	Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Housing Commission	Traffic Immobilization	Library	Capital Projects	Fire Station Bonds	
\$ -	\$ -	\$ 1,352,954	\$ -	\$ -	\$ 1,352,954
-	-	-	-	-	1,450,451
-	-	43,175	-	-	282,608
2	-	111,432	19,006	-	133,484
-	-	-	-	-	377,240
-	-	173,495	-	-	174,575
-	-	-	-	-	147,936
2	-	1,681,056	19,006	-	3,919,248
-	-	-	-	-	478,219
-	-	-	-	-	513,683
-	-	-	-	-	54,080
-	-	-	-	-	161,626
2	-	-	-	-	483,358
-	-	-	-	-	190,238
-	-	1,216,068	-	-	1,216,068
-	-	-	-	-	271,241
-	-	-	176,870	-	176,870
-	-	-	-	229,531	229,531
2	-	1,216,068	176,870	229,531	3,774,914
-	-	464,988	(157,864)	(229,531)	144,334
-	-	-	-	3,215,000	3,215,000
-	-	-	-	(3,139,750)	(3,139,750)
-	-	55,120	-	154,281	209,401
-	-	55,120	-	229,531	284,651
-	-	520,108	(157,864)	-	428,985
-	46	1,516,318	444,032	-	2,270,863
<u>\$ -</u>	<u>\$ 46</u>	<u>\$ 2,036,426</u>	<u>\$ 286,168</u>	<u>\$ -</u>	<u>\$ 2,699,848</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds June 30, 2006

	General Government Employees' Retirement System	Police and Fire Retirement System	Totals
Assets			
Cash and cash equivalents	\$ 468,395	\$ 3,185,885	\$ 3,654,280
Marketable securities:			
U.S. governmental securities	1,495,828	12,563,454	14,059,282
Common stock	17,708,517	60,698,925	78,407,442
Limited partnerships	169,184	507,555	676,739
Real estate investment trusts	124,319	2,284,097	2,408,416
Corporate bonds	4,718,509	12,033,404	16,751,913
Mutual funds	12,442,048	42,790,823	55,232,871
Cash held as collateral for securities lending	-	18,020,570	18,020,570
Pending trades receivable	-	146,632	146,632
Other receivables	81,899	192,246	274,145
	<u>37,208,699</u>	<u>152,423,591</u>	<u>189,632,290</u>
Total assets	37,208,699	152,423,591	189,632,290
Liabilities			
Accounts payable	-	112,691	112,691
Due to other governmental units	-	1,515,077	1,515,077
Collateral for securities lending	-	18,020,570	18,020,570
	<u>-</u>	<u>19,648,338</u>	<u>19,648,338</u>
Total liabilities	-	19,648,338	19,648,338
Net Assets - Held in trust for employees' retirement systems	<u>\$ 37,208,699</u>	<u>\$ 132,775,253</u>	<u>\$ 169,983,952</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension Trust Funds Year Ended June 30, 2006

	General Employees' Retirement System	Police and Fire Retirement System	Totals
Additions			
Investment income:			
Interest and dividends	\$ 1,156,123	\$ 4,434,603	\$ 5,590,726
Net increase in fair value of investments	1,887,916	9,111,623	10,999,539
Less investment expenses	-	(380,846)	(380,846)
Net investment income	3,044,039	13,165,380	16,209,419
Contributions:			
Employer	620,316	2,246,308	2,866,624
Employee	-	433,446	433,446
Total contributions	620,316	2,679,754	3,300,070
Net securities lending income	-	19,250	19,250
Total additions	3,664,355	15,864,384	19,528,739
Deductions			
Benefit payments	2,017,271	5,364,012	7,381,283
Fringe benefits	-	1,515,077	1,515,077
Administrative expenses	-	38,759	38,759
Total deductions	2,017,271	6,917,848	8,935,119
Net Increase	1,647,084	8,946,536	10,593,620
Net Assets Held in Trust for Pension Benefits			
Beginning of year	35,561,615	123,828,717	159,390,332
End of year	<u>\$ 37,208,699</u>	<u>\$ 132,775,253</u>	<u>\$ 169,983,952</u>

City of Dearborn Heights, Michigan

**Federal Awards
Supplemental Information
June 30, 2006**

City of Dearborn Heights, Michigan

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Independent Auditor's Report

To the Mayor and City Council
City of Dearborn Heights, Michigan

We have audited the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan for the year ended June 30, 2006 and have issued our report thereon dated October 5, 2006. Those basic financial statements are the responsibility of the management of the City of Dearborn Heights, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dearborn Heights, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 5, 2006



A worldwide association of independent accounting firms



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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Mayor and City Council
City of Dearborn Heights, Michigan

We have audited the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dearborn Heights, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dearborn Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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To the Mayor and City Council
City of Dearborn Heights, Michigan

This report is intended solely for the information and use of the audit committee, city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

October 5, 2006

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Mayor and City Council
City of Dearborn Heights, Michigan

Compliance

We have audited the compliance of the City of Dearborn Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The major federal program of the City of Dearborn Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Dearborn Heights, Michigan's management. Our responsibility is to express an opinion on the City of Dearborn Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dearborn Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Dearborn Heights, Michigan's compliance with those requirements.

In our opinion, the City of Dearborn Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

To the Mayor and City Council
City of Dearborn Heights, Michigan

Internal Control Over Compliance

The management of the City of Dearborn Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dearborn Heights, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 5, 2006

City of Dearborn Heights, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development - Community Development Block Grant Program:		
2002 program year	14.218	\$ 23,435
2003 program year	14.218	16,326
2004 program year	14.218	903,622
2005 program year	14.218	<u>507,068</u>
Total U.S. Department of Housing and Urban Development		1,450,451
U.S. Department of Homeland Security - Passed through the State of Michigan - State Homeland Security Grant Program Part II Cert - DAP Grant	97.004	<u>15,604</u>
Total federal awards		<u><u>\$ 1,466,055</u></u>

City of Dearborn Heights, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Dearborn Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Description	Amount Provided to Subrecipients
Community Development Block Grant	14.218	First Step	\$ 11,178
Community Development Block Grant	14.218	Lutheran Social Service	2,500
Community Development Block Grant	14.218	Vista Maria	2,500
Community Development Block Grant	14.218	Wayne Metro Action Agency	<u>2,500</u>
Total subrecipient awards			<u>\$ 18,678</u>

The City of Dearborn Heights

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

The City of Dearborn Heights

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

October 5, 2006

To the Honorable Mayor and
Members of the City Council
City of Dearborn Heights
6045 Fenton
Dearborn Heights, Michigan 48127

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Dearborn Heights, Michigan for the year ended June 30, 2006. In addition to the audit report, we offer the following comments and suggestions for your consideration.

State Revenue Sharing

This year's state budget discussion offered hope of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions in the winter and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget compromises that occurred in July saw no increases in revenue sharing over the last several years.

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Essentially, the remaining amount of statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages, and larger urban townships.

The statutory formula sunsets in 2007, so these remaining statutory revenue-sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue-sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village, and remaining township statutory revenue sharing.

October 5, 2006

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform" below) on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

The table below details state-shared revenue for the City over the past several years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2001.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$ 3,485,294	\$ 3,780,878	\$ 7,266,172	\$ -
2002	3,215,483	3,819,392	7,034,875	231,297
2003	2,849,771	3,884,053	6,733,824	532,348
2004	2,210,179	3,841,864	6,052,043	1,214,129
2005	2,052,526	3,933,550	5,986,076	1,280,096
2006	1,919,082	3,999,032	5,918,114	1,348,058
2007 Est.	1,808,268	4,111,203	5,919,471	1,346,701

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$1,808,000 at risk in its General Fund budget based on State estimated 2007 funding levels. We will continue to update the City as developments occur.

Update on Business Tax Reform (and Its Impact on Local Government)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, the remaining \$400 million of statutory revenue sharing may become a target to fill the hole in the State's budget.

October 5, 2006

Retiree Health Care Benefits

As we have mentioned in prior correspondence, governmental accounting pronouncements will require the City to begin to record its liability for postretirement benefits, other than pension benefits, in the City's fiscal year ending June 30, 2009. We would encourage the City to explore options for beginning to address the funding of this liability. Any amount of funds that are dedicated to funding this obligation will help to reduce actuarially determined annual contribution calculations and long-term costs. The sooner an approach is formulated and initiated, the larger the long-term benefit that will be realized by the City.

Michigan and federal law provides for the use of several different vehicles for holding funds set aside for the funding of retiree health care. These options include, but are not limited to, PA 149 accounts, IRC §115 "governmental trusts", and IRC §501(c)(9) "VEBA" trusts. We would suggest the establishment of one of these vehicles which would allow the dedicated funds to be invested in accordance with the pension investment rules.

One option would be to adopt a VEBA (Voluntary Employee Beneficiary Association) trust. A VEBA trust is a qualified trust under IRC §501(c)(9), which permits, with certain restrictions, payments of welfare benefits to employees and their dependents or beneficiaries. Assets in the trust are not subject to the employer's general creditors. At the same time it is likely that the asset itself would be allowed to be reflected within the City's annual financial statements. In order for the VEBA trust to offset OPEB liabilities, however, the exclusive purpose of the VEBA must be to pay OPEB benefits.

Cable Franchise Fees

The State of Michigan has joined a number of other states considering statewide cable television franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable television providers, and also would apply to new providers who would provide service through phone lines. Details are still being worked out in regard to "public access" and local origination channels, franchise fees due to local governments, service boundaries, and other key provisions. Responding to pressure from local government, the Legislature has decided to wait until after the November elections to continue discussions regarding this bill. In the current year, the City received just under \$600,000 in franchise fees under existing agreements.

To the Honorable Mayor and
Members of the City Council
City of Dearborn Heights

4

October 5, 2006

Internal Control Considerations

During the audit, we noted the following regarding the internal control structure:

- During the review of manual journal entries, we noted that there appears to be a need to increase the level of formal review that should be applied to entries that are formulated based on the originator of the entry. The comptroller's office is currently reviewing a revised formal authorization approach.
- We recommend that the City review the policies currently in place to account for the sale of capital assets and their tracking on the City's internal capital asset ledger to ensure that assets which are sold are removed from the listing.

We were pleased to note that improved internal control policies and procedures had been implemented in the current year related to the following areas:

- Cash disbursements related to all signed checks being mailed directly by the Treasurer's Office in lieu of individual departments on occasion
- All invoices from vendors are submitted directly to the purchasing department in lieu of individual departments on occasion.

We would like to thank the mayor and the City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

Plante & Moran, PLLC



Blake M. Roe



Martin J. Olejnik